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## FINANCE AND REPRODUCTION OF CAPITAL

ECONOFICTION CAPITAL, DERIVATIVES, FINANCE, MARXISM, MONEY, REPRODUCTION

Here we examine the ratio of financial capital (finance) to the reproduction of capital. In Section A, we clarify the concept of extended reproduction with particular reference to the concept of circulation. Section B deals mainly with the previously neglected relationship between finance and capitalist production. In a further section, the relationship of finance to circulation should be examined.

A)

In the analysis of capital, a virtual simultaneity or superposition of commodity, money, capital (and money capital) is to be assumed from the outset, and this in relation to the a priori of total capital. If goods and money are understood as integrative functions of the capital process, in which the starting point of money is at the same time the point of its return increased by a surplus, they are to be understood as capital of goods and money capital. (MEW25: 335) If money in the function of the means of payment mediates the process of capital (credit), it is capital. (ibid.: 459) The superposition/superposition can also be found in the primary functions of money – they overlap and are intertwined with the increase of capital. Frank Engster writes: “Money functions are indeed developed linearly in capital, but the first money function (measure) enters through its second as a means of exchange, and both are, as it were, encroached upon by the movement of capital G-W-G’ and are included in it. (Engster 2016: 159) To consider the restriction that Marx, like any other writer, must make – if one disregards the poetics that make non-linear writing possible – means to always think along during the linear process of the representation of the concept of capital simultaneity and superposition, or to aggravate it even further, to read the three volumes of capital from behind, so to speak, and thus precisely not starting from the form of goods or money, both of which are often enough understood as germ forms (the rise from the abstract to the concrete), but starting from total capital, the quasi-transcendental overall process of the reproduction of capital. In this process, the individual capitals must absolutely understand what is objectively given from the outset – they must replicate the a priori of value-added production given by total capital and at the same time affirm their mutual dependence and comprehensive networking in and through competition, and this under the exclusive condition of having to achieve at least an average rate of profit.

If capital has the capacity to set itself as an end in itself in an excessive, growth-oriented and spiral-shaped movement (the circle

is a special case of the logarithmic spiral, namely a spiral whose growth is zero) – the starting point here is in some way the end point and vice versa – then as a sui generis monetary process it comprehensively dominates the production sphere in order to integrate it into the primary “monetary circulation and distribution”  $G-W-G'$ . (See Sotiropoulos//Milios/Lapatsioras 2013a: 43) At this point we point out that we do not understand capital as a subject or as an automatic subject (it does nothing), but this subjectivity is inscribed in the grammar of language, and it is difficult to overcome it. Production, allocation, distribution (the distribution of profits), circulation and productive consumption are therefore, in terms of their integration (both structurally and temporarily), to be seen as functions of the monetary economy of capital (and its metamorphoses), its phases, aspects and moments. Economic growth is a necessary but subordinate process to the exploitation of capital.

In Capital Vol. 2, Marx assumes three cycles of industrial capital, namely money capital, productive capital (constant and variable capital) and commodity capital, whereby he summarizes the entire cycle of capital in the process formula  $G - W (PM, AK) \dots P \dots W' - G'$ . In addition to the production time (P), this cycle comprises two phases of circulation, namely the preparation time ( $G-W$ ) and the realization time ( $W-G$ ), Marx calls the entire process the turnaround time in terms of time. Marx therefore uses the term circulation not only for the two phases of selling and selling goods, but also for the entire duration of the capital turnover, which thus also integrates production. Marx then speaks of the total circulation time of a given capital. (MEW 24: 154) The entire cycle of capital is the cycle of money capital, insofar as it structures, represents and integrates the cycle movements, more precisely the spiral movements of capital, as it also implies disturbances within the cycles, insofar as he himself functions as a shifting center. (MEW 24: 31ff.) This formula of monetary capital circulation is the primary mechanism of the capital economy, which constantly accompanies and includes the production of goods as production-for-profit and as production-for-circulation. Although money capital is also a moment of passage of the entire reproduction process of capital, as Marx notes (MEW 25: 406), once capitalization is set as the formation of fictitious capital, i.e. for Marx the most developed form of capital, any qualitative differences between the industrial and commercial individual capitals, their production processes and their goods are erased in relation to it. Marx writes: “...And all capital is money capital in its expression of value”. (ibid.: 406) Foreign or own money capital is the motor for industrial enterprises that buy goods (means of production, buildings, energy, raw materials, software, etc.) and rent labor, so that products enriched with added value can be produced and also realized, so that it comes to the new formation of money capital. Machinery, energy, products or production processes are not capital in themselves.<sup>1</sup> Marx has shown that the above formula is the decisive expression of all economic relations appropriate to capital, and this naturally includes production, which functions as a purely functional process, a process for producing profit. Capital ever ties the production process to its monetary metamorphoses or to the (monetary) total circulation, i. e. production is to be understood as a function and phase of the circulation of capital (in the second comprehensive sense), the general form of which can be described in the following formula:  $G-W-P-W'-G'$ .

Accordingly, the logic of capital applies a priori to each individual capital. And thus each capitalist enterprise has to be regarded as equivalent to each other, and this equivalence refers to the enterprise as a structural-functional “place” of capital, whereby each capitalist on the one hand structurally acts as a kind of trader who buys goods with borrowed money or as a money owner (input of the enterprise) in order to sell a produced output with profit, and on the other hand functions as a manager who balances, monitors and coordinates the production processes in order to make them more effective. And the prices in an enterprise are determined not only to achieve a monetary output higher than the monetary input of a given period, but to realize at least an average rate of profit in the markets.

If one now extracts the most important cycle from the permanently running capital metamorphoses of money, commodity and productive capital, namely the movement of money capital itself, then at least two capital subjects are present in it. The place of capital is occupied twice, namely by the money capitalist and the acting capitalist, so that one cannot abstain from the existence of the interest-bearing capital or credit in the capital analysis from the outset.

B)

Even for Marx, an important consequence of extracting added value in the production of goods is that the added value is transformed into what we now call an asset. In this context, the asset is a means of preserving added value on the one hand and of accumulating it on the other. If this were not the case, it would not be produced in the first place. Finance is the name given to capital today when it comes to an investor for whom the easy convertibility of an asset into money, which is called liquidity, is already logically distinguished from a utility value, which the asset may or may not have. Many Marxists are particularly critical of the loss of utility value in financial instruments such as derivatives, which are produced for the purpose of raising liquidity and are now part of the general wealth.

We define liquidity as the nominal relationship between the maturity and value of an asset. If liquidity means money that is initially only virtually tied up in a financial asset, this is only possible if the asset is not currently in monetary form. If the liquidity is updated or becomes money, then the liquidity of the asset is eliminated. As a result, the investment can never remain perfectly liquid, and in this sense liquidity appears to be an intense consequence of the extensive nature of the security denoted in money. Liquidity is a functional relation between the time of delay and the time of realisation of the asset. Liquidity should therefore be seen as an endogenous moment in the financial system itself. Finally, money measures the gap between the liquidity or price of an asset and its liquidation value (monetizability). The financial system thus generally makes capital relationships more effective, but these are now themselves heavily dependent on liquidity, which is constantly increased by the trading of assets. Marx has

treated liquidity purely as a realization problem – either as a monetary reflux from the investment or as the repayment of a loan – but he has not been able to see the possibility that a corporate risk would be hedged and precisely so increase liquidity in the financial markets.

The fact that financial products are not only instruments of circulation (they are), but also resources for the accumulation of real, general wealth, is the problem that Marx at least raises. Today it must be shown what role financial capital and financial markets play in capitalist reproduction, first and foremost in the ongoing reproduction of commodity markets. Today, capital is a system whose accumulated real wealth depends on the provision and organization of credit and liquidity by the financial system and its financial markets, where the price sums of financial assets can rise in some independence from the output of commodities and far beyond their growth rates. Capitalist production must ever be pre-financed, and the fact that asset markets grow faster than the material output of industrial production is a logical consequence of capitalization, but at the same time always tied to certain historical conditions.

Marx has assigned the financial instruments to the sphere of circulation and analysed their function separated from physical means of production, which should preserve the past wealth and at the same time enable a future demand for the produced goods through their future use in production. In the case of Marx, when it comes to value (analogous to energy and matter), there usually seems to be a principle of conservation, whereby the growth of wealth accumulated in real terms can never be greater than the profits produced and realised in industrial production in a given period (multiplied by the rate of added value discounted by the investment rate), so that any increase in the value of physical capital or constant capital in the form of financial instruments does not occur in Marx at all or is considered purely fictitious wealth. (cf. Meister 2016: Kindle-Edition: 2702ff.) For Marx, the real growth of an economy can therefore never be greater than the industrially produced profit. This is Marx's exoteric argumentation. However, this can no longer apply to contemporary capital, the financial system and its financial instruments, because the assets themselves are financing means to set in motion and expand investments in the "real industry". Marx's esoteric argument regarding the reproductive cycle of capital is that according to the formula  $G-W-G$  the increased value  $G$  is obtained by buying new means of production, which not only serve to increase output, but also as assets, which also prevent the money realized by the last cycle of production from being held only as treasure. Moreover, the production of classical goods and services always creates a demand from investors for financial resources that serve to preserve, accumulate and increase added value, producing financial resources in the same process as the production of goods and services. The production of goods today must therefore be inevitably linked to the physical production and accumulation of asset values.

With regard to the functioning of the financial system, we now ask the following question: what new types of financial assets must emerge today in order to safeguard and expand capitalist reproduction as a whole, and how does the variable relationship between asset markets and consumer goods markets create conditions to which new movements in social conflicts respond? Marx sees in capital that the new types of financial assets used to accelerate capital accumulation must be distinguished from money. For Marx, the general formula of capital cannot simply be  $G-G'$  – money that leads to more money – but, in order to generate real wealth, there must first be a monetary investment that functions differently from money in the exchange of goods. Marx sees that wage labour produces added value, which in turn has the function of meeting the effective demand for goods. Marx does not see, however, that the added value is preserved and accumulated by buying means of production that not only serve as a means of production (constant capital), but also function as assets, which in turn serve as a hedge against the risk that money arising from the sale of goods is hoarded or parts of the produced goods are not realized and therefore insolvencies occur. The purchase of production goods (constant capital) in extended reproduction represents a partial solution to the problem of how to preserve and accumulate real wealth without hoarding money. Constant capital must therefore also be understood as a relatively liquid asset, insofar as capitalist production must be pre-financed and the surplus resulting from it reinvested in new means of production. The collateral/security provided by an asset allows us to think further about how production is financed. There is a flow of money and a flow of collateral that provides liquidity for the production of goods and services. The liquidity of general wealth is a result of finance.

The production of financial instruments is definitely to be understood as an alternative to saving money by preserving and accumulating real wealth. For a financial investor this means that the purchase of financial assets must be compared as a version of the formula  $G-W-G$  with the formula  $G-G$  – the former now understood as a strategy of hedging value. In the formula  $G-W-G$  there are two substitutes for  $W$  (commodity), namely the money capital invested in labour ( $W$ ) and the money capital invested in capital goods which, and this is now the crux of the matter, act as both means of production and more or less liquid securities used to generate new cash.

For Robert Meister (ibid.), the mode of relative value-added production<sup>2</sup> immediately introduces the logic of the financial system into the mode of production, his analysis also being concerned, among other things, with examining the effects of the operations and methods of the financial system on the proper reproduction of the social relations between labor and capital. (Lee/Martin 2016: Kindle-Edition: 6801f.) Let us make a first attempt at explanation: the products that serve as means of production are also to be understood as vehicles of capital accumulation can be traced back to the financial principle that every identical unit of an output must be sold at the same price, no matter how high the respective production costs are. This principle favours companies that can produce a higher number of products in a given period of time than others, which is made possible primarily by investing in labour-saving, productive technologies that in turn lead to higher output. The reduction of labour costs and a more

effective use of raw materials also lead to an increase in relative added value. Added value is now produced not by using more living labour, but by the fact that the same amount of raw material present in a finished product can be sold at low cost per cost. This is about the arbitrage of constant capital. From the perspective of financial theory, this type of investment is an example of how to create an arbitrage opportunity by widening the spread on the returns of the investment to produce products that we will achieve before a uniform unit price, no matter how much labor costs they incur. It's about how technology can be used to create and measure a spread with which arbitrage can be done by investing in a kind of asset that serves to accumulate wealth. The vehicle to finance the spread in this case is simply to increase the investment in inputs and inputs, where machines are inputs on the one hand and financial assets on the other.

The added value that is produced in a given production phase can (if it is not simply hoarded as money) in the next phase only be maintained and increased by an increased reinvestment in means of production and raw materials on the one hand and on the other hand. Without propagation, there is no preservation of capital. In expanding production capacities, capital first invests in labour, because it hopes for a spread between the labour of money (the contribution of workers to GDP) and the monetary value of labour (wages). However, there are different arbitrage opportunities for companies to increase profits, especially if they are using different technologies and different productivity levels, but these arbitrage opportunities are also eliminated in the course of the balancing movements at average profit rates, otherwise the maintenance and expansion of extra profit would be endlessly possible for a dominant company, which would ultimately end in a monopoly position. There are two different arguments at Marx that play a role in his analysis and criticism of the general formula  $G-W-G'$ . With regard to absolute added value, the first argument is that the application of labour enables the production of added value created by the workers, who are paid a lower share than the total value they produce, with which they can buy the consumer goods they produce as a class.

To repeat, in the case of relative value added, the argumentation is different: Marx comes closest to the problem of the representation of the relation between the production of goods and the production of assets in his analysis of relative value-added production in capital vol. 1. When it comes to the financial system, relative value-added production is based on its first maxim, the law of the uniform price. This means that two identical commodity units should be sold at the same price regardless of the respective costs of the enterprises, whatever the forms of production are, in which raw materials are transformed into finished products with the help of machines and labor. However, the company is given a positive arbitrage opportunity with regard to its investment in means of production if it is able to produce more units of goods in a given working time than its competitors. The creation of arbitrage via more effective transformation of raw material (as part of constant capital) by machines is part of increasing productivity. The added value here is not generated by hiring new workers or by labour intensification, but by the fact that the finished product can be sold at the same or even more envious price (per unit) as the same product of the competition. This accumulation of wealth through relative value-added production is quite real and material in so far as it stems from arbitrage over constant capital and not from absolute value-added, which corresponds to an increase in working hours or a growing number of jobs.<sup>3</sup> Marx's esoteric argument also remains related to the need for the end product to be realized in the market, which in turn remains dependent on the consumer goods sector and the financial sector (consumer credit), the latter influencing the former. Marx's concept of relative value-added production leads to questions of real accumulation, whereby in the last instance it is the logic of financialization that expresses itself in relative value-added production and finally leads to the general law of capitalist accumulation. This law describes the creation of an increased production capacity (of constant capital) through labour-saving technology with simultaneous growth of the surplus population, which, due to the use of labour-saving techniques, can no longer be brought into wage labour at all.

Two arguments therefore play an important role in the presentation and criticism of the general formula of capital  $G-W-G'$ . In addition to absolute value-added production, there is also relative value-added production, whereby first and foremost the financialization of production goods allows the capitalists to increase material output in production. This is done by investing in machines, raw materials, energy, software, etc. and simultaneously trying to reduce labour costs and the number of workers. The realization problem that inevitably follows from this includes the question of how it is at all possible to update and monetarize the produced goods as prices and thus generate further monetary funds. Marx deals with this problem in Capital Vol. 2, which is often understood as if it were only a question of the equilibrium of reproduction processes in and between the two sectors of production and consumer goods. The potential possibility that commodity values are not realized comes to light here and follows from this that no further monetary funds can be generated or realized in money (the non-realization is also inherent in the financial assets, unlike money, whose secret lies in the fact that it does not have to be spent).

This leads to the following conclusion: The mean term  $W$ , which concerns the constant capital (machines) of the formula  $G-W-G'$  cannot simply be used as a commodity, which is productively applied in the production process but must also be understood as a hedged portfolio that is priced as capital. Constant capital serves not only as a source of added value, but is also a vehicle for the real accumulation of capital (qua arbitrage and finance). The realization problem named by Marx (goods must be offered and sold on markets in order to invest money funds) must always include the question of liquidity, and this also concerns financial instruments, which must also be realized in money. The non-sale of goods as well as the non-realisation of financial assets leads to a lack of accumulation of money funds and thus to insolvencies and crises. However, realisation can be hedged by maintaining the value of the investment in constant capital during the time it is transformed into an end product. The fluctuating price of the end product can also be manipulated using options.

Marx shows in Capital Vol. 3 that there is already a realisation problem for the companies, among other things also when they invest qua credit in means of production which can lose value during the production period, so that the manufactured products can no longer be sold on the market at the historical average price and the credit can then possibly no longer be serviced. (ibid.: 680lf.) The capitalist owns a portfolio with property (his net investment in constant capital) and debt, but his portfolio does not initially have a hedge (insurance) against the loss in value of his investment (machines and raw materials), which, however, can occur until the time of the sale of newly manufactured products. This is the problem of the realization of its already manufactured products on the markets. And if the investments in machines lose value and no longer serve as collateral for loans taken out, the financial markets may collapse. This is a problem that indicates that the investment absolutely must be hedged.

It is well known that in large corporations such as General Motors, the capital goods are part of their own portfolio, which of course also includes bonds or options on the capital goods. Randy Martin registers at this point a shift from G-W-G to G-D-G, where D stands for the derivative, which is now identical to the productively consumed goods and also drives the self-movement of capital. (ibid.: 347) For example, a company can increase its own creditworthiness by buying options on a commodity that it needs for its production processes, insofar as it is impaired by the risk of rising commodity prices and is therefore insured by the option. At the same time, the operations of a number of other players are influenced by the price index of this commodity. Risks are duplicated, multiplied and transferred to other areas.

The assets here are related to the means of production produced and do not serve solely as financial vehicles for accumulation. Insofar as these assets have a utility value that goes beyond their pure liquidity, they are not purely financial products whose utility value consists solely in realizing a price in a differential-immanent movement that generates returns on the financial markets. The non-realization of the market price for an end product or its sale below the average price results for the company in a decline in monetary funds and a reduced possibility of using all raw materials and capacity/machinery to generate new, larger monetary funds. However, the realization problem can be solved if the company's portfolio contains not only debt and property, but also puts and calls. The price of a put or call is usually defined as the cost of its hedge. The existence of a market for puts and calls (the continuous possibility to price and monetize them) creates liquidity for the underlying markets of classical commodities and means of production in order to solve the realization problem at least partially. The value is now maintained and accumulated in the form of financial assets through the spread between the market value of the asset, if it is maintained, and the liquidation value, if it is realized in cash. A fully liquid asset is as good as cash and is seen as an alternative to saving because it can be sold immediately on the market.

What Marx could not have known is simply that the realization of the goods produced can be hedged or insured by manufacturing puts and calls on options related to the means of production and raw materials.

can be hedged or insured; they thus tend to preserve at least the value of the investment in machinery and raw materials during the period in which they are transformed into end products. Marx could still know that the manufacture of options could intervene in the fluctuating price of a finished product on the market. The existence of a market for puts and calls, the continuous possibility to permanently price and monetize the option, today mostly generates enough liquidity for the underlying market of production and consumer goods to eliminate the risks for their realization. The value of the products is now increasingly preserved and accumulated in the form of financial assets by trading with the spread between the market value of the asset, if it remains liquid, and the liquidation value of the asset.<sup>4</sup> A fully liquid asset is also, as already mentioned, as good as cash and then also an alternative to the preservation of value through money, whereby there are hardly any risks that the asset cannot be realised immediately at its market price. In order to finance an asset that is not fully liquid, a liquidity premium must then be paid by either executing a hedge or buying a security that is more liquid than the asset itself. The liquidation value of the asset will in turn be the money you get when you sell the collateral pledged, and the liquidity premium will reflect the extent to which the original value of the collateral exceeds the value of the financial asset used to hedge it.

So a company's capitalistic portfolio consists not only of bonds and debt, but also of the puts and calls of the options used to hedge. Without the correct design of the price movement of the puts and calls, there can be no robust recycling of the bonds and debts. A call is understood here as the right to acquire a potentially infinite surplus, and a put is an instrument to limit the loss. Both are derivative means which indicate whether a company is worth investing in a new capital stock in order to increase its capital stock and its profit, whereby the capital stock or the machines are just one of the means of increasing profit, whereby the relative production of added value is only one way of exploiting the spreads in a particular market, i.e. making profits. Without pricing out the calls and puts and trading them on the derivatives markets, it is not possible today to manage a well hedged portfolio consisting of debt and bonds, whereby the portfolio should have liquidity at all times. In the formula G-W-G; W can therefore always be defined as a portfolio consisting of debt and ownership as well as puts and calls. Unlike money, these are pure financial products (not yet realized in money) and their relation can be fixed in a financial form that describes the parity of debt and capital stock in terms related to the parity of puts and calls. The investment in W must therefore fulfil the following equation according to Meister:

Stock + Put = Debt + Call. (Meister 2016: Kindle-Edition: 3044)

This formula contains a simple identity: if you have a capital stock and a put that contains a downward hedge, then you can replicate a return on an investment that is equal to owning a call that fulfills the possibility of participating in a surplus, based on

the capital stock plus the current value of a loan. Market liquidity is what the financial markets produce to complement the markets for classic goods,

You can now use puts or calls to get a completely hedged portfolio that in turn allows a return that is at least equal to the risk-free interest rate. The spiral G-W-G' therefore contains a double arbitrage possibility, namely on the one hand the play with the spreads in the valuation of the machines and the manpower, provided that the wage can neither be invested nor insured, and on the other hand a fully hedged portfolio on the basis of the call put parity. The basis for hedging is the credit as well as the return on the investment. If this reflux of money, which always remains related to the credit the company takes out, is the paradigm of the portfolio side of G-W-G' and this is also related to investments in wages, then the effects of the financial system on the production processes of companies are far more complicated than Marx explained.

In the derivatives markets, goods are not priced according to their value, but according to an uncertain future value. If a commodity (for example, a house) is sold before it physically exists, derivatives assume that production is circulating by assigning floating and contingent values to the commodity. Classical commodities have no liquidity if they do not embody any economically viable options. Therefore the wage worker cannot invest, he must spend his money entirely on consumption and must therefore offer his labour continuously on the labour market in order to earn the money for his consumption. However, any commodity other than consumer goods has liquidity and can serve as a vehicle for the preservation and accumulation of capital. Financial products such as health insurance, pension funds and student loans are now part of a household's cost of living, but rather than being seen as an investment in one's own "human capital", they should be seen as a kind of tax paid on financial capital.

And even if the profit rates were to fall to classically produced, profits can rise due to a growing financial market. Financial instruments can hedge all possible forms of risk (credit, currency etc.) that lead to illiquidity, but not the liquidity itself. This can only be done by the state that issues a currency and, for example, buys badly private bonds in order to increase liquidity on the markets.

1 The assets or capital of corporations (non-financial and financial) consist of tangible assets (fixed assets and real estate) and financial assets, which are offset by loans and shares in other sectors, and the difference results in the net assets. In recent years, financial assets have grown faster than fixed assets, especially for non-financial corporations, where financial assets were temporarily larger than tangible assets (more a feature of financial corporations). The growing importance of financial assets is most strongly reflected in the asset structure of financial corporations, whose gross assets tripled, but which were also confronted with a strong increase in debt, so that net assets grew much less strongly.

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